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June 28, 2005

Barbara Halsey, Director

Jobs and Employment Services Department
215 North D Street, #301
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SUBJECT: AUDIT – JOBS AND EMPLOYMENT SERVICES DEPARTMENT

Introduction

In compliance with Article V, Section 6, of the San Bernardino County Charter and County Policy 02-02, we have completed an operational audit of the County of San Bernardino's Jobs and Employment Services Department (JESD). Our audit of contracts, in effect from July 1, 2001 through June 30, 2004, was made in accordance with the standards developed by the Institute of Internal Auditors.

A draft report was sent to JESD on 09/18/2006. This audit was discussed with the JESD on 09/18/2006. Responses to the recommendations received on 10/11/2006 are included in the report.

Background and Scope

The Workforce Investment Act (WIA) of 1998 is a Federal job training program, primarily governed by Titles 20 and 29 of the Code of Federal Regulations. San Bernardino County is one of California's 50 Local Workforce Investment Areas (LWIA). Each LWIA is administered by a Local Workforce Investment Board (LWIB).

LWIBs are comprised of entity representatives from private sector businesses, organized labor, community-based organizations, local government agencies, and local education agencies. The LWIBs provide policy guidance, designate operators for their area's One-Stop Career Centers, and oversee the job training activities within their local areas. Each LWIB is certified by the State of California and is in partnership with local elected officials.

JESD is the County of San Bernardino's designated administrator of WIA funds in partnership with the LWIB. JESD solicited contractors to provide WIA program resources to eligible program participants using a Request for Proposal (RFP) process. JESD evaluated proposals submitted by contractors to determine whether they met minimum program requirements. JESD presented its evaluations of contractor proposals to the LWIB.

The LWIB reviewed the JESD evaluations, and then made contract award recommendations. JESD presented award recommendations to the County Board of Supervisors (BOS), who in-turn awarded contracts to vendors for WIA services.

During the audit period, we reviewed:

- For procurement testing, our random sample consisted of 36 of 249 contracts, totaling \$5.8 million, representing 23 percent of the \$24.9 million JESD received from the federal government for those programs.
- For fiscal management, our random sample consisted of 33 of 9,882 expenditures.
- For subrecipient monitoring, we randomly selected a sample of 39 of 795 applicant or registrant records for program monitoring. Additionally, 22 reimbursement claims were randomly (20) and judgmentally (2) selected for 20 of the 36 contractors.

Our objectives were to determine whether the internal controls used by the JESD were effective for procurement transactions, fiscal management, and contract monitoring.

Conclusion

JESD did not always apply effective internal controls for procurement transactions, fiscal management and contract monitoring. The following discrepancies were noted during our review.

- Contracts for WIA programs services were awarded to contractors that did not meet WIA requirements.
- Fiscal and program contract monitoring systems were unreliable.

FINDINGS AND RECOMMENDATIONS

Finding 1: Contracts were awarded to proposers that did not meet the RFP minimum requirements.

Proposers are required to submit proof of insurance or its equivalent with their proposal.

Two entities were awarded contracts without providing proof of insurance or its equivalent. JESD management did not always review the proposals for completeness. The value of

Finding 1: - Continued

contracts awarded to ineligible proposers that did not meet *Minimum Proposer Requirements and Proposal Presentation* was over \$130,000. See Appendix A.

Recommendation:

The JESD Director should not make contract award recommendations unless all RFP requirements are met.

Department's Response:

The Workforce Development Department (WDD – formally JESD) implemented a policy that requires the completion of a Initial Proposal Evaluation form as part of its formal RFP review process. This form must be completed for each proposal received during an RFP. The form is completed and signed by a WDD analyst. Any proposal that is missing any of the required forms/documents is rejected and is not scored nor considered for award selection.

Auditor's Response:

The Department response addresses planned actions to correct deficiencies noted in the finding.

Finding 2: Contracts were awarded, without documented justification, to proposers not meeting WIA requirements.

To be eligible for a contract award, in accordance with WIA requirements, the proposers are required to meet established criteria and have a proposal evaluation score of at least 70, per the JESD contract analysts. JESD recommended to the BOS, contracts that did not meet the JESD established minimum score. Our review of JESD procurement files identified the following:

- Six of 36 (16 percent) proposals were recommended for selection, and subsequently awarded, although they did not meet the minimum required evaluation score of 70. See Appendix A.
- Three of 36 (8 percent) proposals did not have evaluation score sheets, thus scores were not known, nor was there written justification for the selection. See Appendix A.

Contracts awarded to proposers either not meeting minimum score of 70 or not having an evaluation score sheet totaled \$1.9 million.

Recommendation:

JESD should ensure proposers meet all WIA requirements before recommending them to the BOS for selection.

Department's Response:

WDD developed and implemented a RFP document that clearly states the minimum requirements an entity must be capable of performing to be considered for receiving a WIA contract. The proposal scoring sheet clearly indicates the extent to which the proposal meets these minimum requirements. Although a summary sheet that contains the name all of proposals along their corresponding score total is provided to the Workforce Investment Board Youth Council for funding consideration, copies of each proposal's individual score sheet is also provided. Any decision made by the Council to recommend funding to the BOS for a proposal not meeting the minimum score level has the Council's justification documented in the Council's meeting minutes.

Auditor's Response:

The Department response addresses planned actions to correct deficiencies noted in the finding.

Finding 3: Relationships between the Local Workforce Investment Board members and proposed contractors were not always disclosed to the Board of Supervisors.

Members of the LWIB are to abide by all conflict of interest laws as set forth in the Workforce investment Act [29 U.S.C section 2832, subdivision (g)] and state law [Government Code section 1091.2], and as described in the LWIB By-Laws. LWIB made recommendations to the BOS for contract awards to proposers who had a direct relationship with a member of the LWIB. During our review, we noted no instance in which a LWIB member failed to abstain from voting regarding a contract involving an entity with which they had a relationship. However, in those cases, JESD did not fully disclose members' relationships with proposers to the BOS, so that the BOS could make an informed decision on those contracts.

Recommendation:

The procurement process should provide for full and open competition and avoid the appearance of a conflict of interest (either individually or organizationally). JESD should disclose related-party information of LWIB and proposers to the BOS, regarding procurement transactions.

Department's Response:

All agendas for the Council meetings clearly identify the Conflict of Interest parameters for all members as well as listing the proper procedures that members must follow if a conflict is present. The Council meeting minutes will indicate any conflict of interest situation that occurs and the action taken by the appropriate member. In the future, when WDD sends funding recommendation to the Board of Supervisors on behalf of the Workforce Investment Board, the Department will identify on the Agenda Item any conflict of interest or appearance of conflict of as identified in the Council minutes.

Auditor's Response:

While JESD's and the Council's procedures enhance citizens' confidence in the procurement system and integrity within LWIB operations, the fact remains that transparency could be enhanced for decisions by the Board of Supervisors. The Department should specifically disclose in its funding recommendations to the Board of Supervisors on behalf of the Workforce Investment Board any award recommendations for agencies represented on the Council. Transparency helps build public confidence, improve taxpayer support, and is an important tool in fighting corruption.

Finding 4: JESD could not always substantiate required fiscal and program monitoring.

Title 20 CFR Section 667.400 (c) (1) requires that subrecipients must continuously monitor grant-supported activities in accordance with the uniform administrative requirements at Title 29 CFR Parts 95 and 97, as applicable. All written reports and other documentation pertaining to monitoring and other oversight activities must be made available for review. Proof of insurance is required for each contract year. We reviewed files for written reports of fiscal and program monitoring and noted the following:

Subrecipient Monitoring Testing:

- Proof of insurance was not present for each contract year. JESD procurement files did not have proof of insurance for follow-up years, in six instances of 36 contracts. Contracts without proof of insurance in follow-up year were valued at \$185,312. See Appendix A.
- Eligibility for 15 of 39 applicants or registrants could not be determined because the records were incomplete in subrecipient files.
- Subrecipients did not provide documentation for 10 of 22 WIA claims for reimbursement to determine reasonableness and allowability. The following deficiencies in documentation were noted:
 1. Four invoices did not agree with amounts claimed.
 2. One instance where JESD reimbursed a subrecipient for a personal credit card purchase.

3. An invalid contract number was used to reimburse a subrecipient that exceeded its authorized award.

Incomplete operating performance reviews and inconsistent monitoring weaken the process that is designed to ensure that subrecipients do not exceed the budget and do carry out program objectives. The lack of documentation, in support of services rendered, was previously reported to management in a February 2004 California Employment Development report.

Recommendation:

The JESD Director should ensure written onsite fiscal and program reviews that record findings and any corrective actions are conducted for all subrecipients at least once a year as required by federal regulations.

Department Response:

All subrecipients are now monitored on site at least twice a year and complete fiscal and program reviews are conducted. The findings of each visit are documented in a written report signed by the Director or his/her designee. Any areas of deficiency noted during the monitoring are identified in the written report and are given a Corrective Action Tracking System (CATS) number. A log of CATS items is kept in the contracts unit. The CATS log is monitored to ensure the contractor completes the corrective action necessary to resolve the deficiency. Contractors who fail to meet the due date are sent reminder notifications along with the warning that failure to complete the action could result in termination of the contract. A copy of all reports is maintained in the contract files.

Auditor's Response:

The Department response addresses planned actions to correct deficiencies noted in the finding.

Finding 5: Federal record retention requirements were not always met.

All subrecipients and JESD staff under WIA Section 185(a) (1), (f) and Title 29 CFR Part 97.42 (a) (b) (c) are required to ensure proper retention of all records pertinent to all grants and agreements under WIA of 1998 and Welfare-to-Work (WtW). There is a three year retention period for the records of each funding period starting on the day the grantee or subrecipient submits to the awarding agency its single or last expenditure report for that period. The following inadequacies were identified:

Procurement Testing:

- JESD personnel stated that boxes containing six of the 36 procurement files requested could not be located.
- Nineteen procurement files did not contain selection or non-selection notices for awarding contracts.
- Three procurement files did not contain award documents.

Subrecipient Monitoring Testing

- Eligibility for services records were missing in seven applicant or registrant files.
- One registrant record requested from subrecipient could not be located.

Recommendation:

The JESD Director should develop written desk procedures, per San Bernardino County Policy 04-01, for detailing required documents to be stored in historical files; and, periodically verify the procedures are followed.

Department Response:

WDD has developed written procedures per San Bernardino County Policy 04-01. The procedures are contained in the WDD Administrative Handbook that is maintained online and available for use by all staff. Compliance with the procedures are reviewed periodically by administrative staff.

Auditor's Response:

The Department response addresses planned actions to correct deficiencies noted in the finding.

Finding 6: Fiscal procedures for processing invoices within 30 calendar days were not always followed.

JESD Fiscal Handbook states WIA Fiscal Unit One-Stop Center has 10 days from the date stamp to process the invoice and send it to JESD Fiscal Administration. Payments must be made to the eligible training providers (ETPs) within 30 calendar days of the date stamp to ensure JESD fulfills its contractual agreement. Our review disclosed 8 of 33 claims for reimbursement were not processed within 30 days of receipt, representing a 24% error rate.

Recommendation:

The JESD Director should ensure invoices are processed timely.

Department Response:

The current WDD process requires the contractor or Eligible Training Provider (ETP) to submit invoices directly to the WDD Fiscal Unit for processing. The invoices no longer go first to the One-Stop Centers. The Fiscal Unit date stamps each invoice upon receipt. After the payment document is prepared, the fiscal clerk submits the invoice and document to the fiscal supervisor for approval signature. At that time, the supervisor checks the preparation time from receipt of the invoice. Any time period greater than 10 days is reviewed with the fiscal clerk. Currently, documents are being completed within 3 days of receipt.

Auditor's Response:

The Department response addresses planned actions to correct deficiencies noted in the finding.

Respectfully submitted,

LARRY WALKER
Auditor/Controller-Recorder

By: _____

Carla D. O'Ferrall
Internal Auditor II
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Quarterly copies to:

County Administrative Office
Board of Supervisors
Grand Jury (2)

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Audit Report Distributed: 10/19/06

LDW:CDO:dlp.1

Appendix A

Contract Number	BOS Contract Amount	Finding 1	Finding 2		Finding 4
		Minimum Requirements Not Met	Did Not Meet Recommended Score of 70 Points	Score Sheets Missing	Lacked Proof of Insurance in Follow-up Year
00-328A	\$ 76,045		46.3		
01-469	291,841				✓
02-433	210,000				✓
01-472	376,556		57.0		
01-476	130,930			✓	
02-439	50,000		65.0		✓
01-478	214,841				✓
02-429	97,132	✓			
01-479	388,849		67.7		
02-78	24,900			✓	
01-480	497,070				✓
04-249	35,000	✓			
00-341	359,587		46.8		
02-447	230,000			✓	
01-485	257,240		68.6		✓
Totals	\$ 3,239,991	\$ 132,132	\$ 1,508,277	\$ 385,830	\$ 1,520,992